

CHINA'S ECONOMY AT A GLANCE

MAY 2021



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KEY POINTS

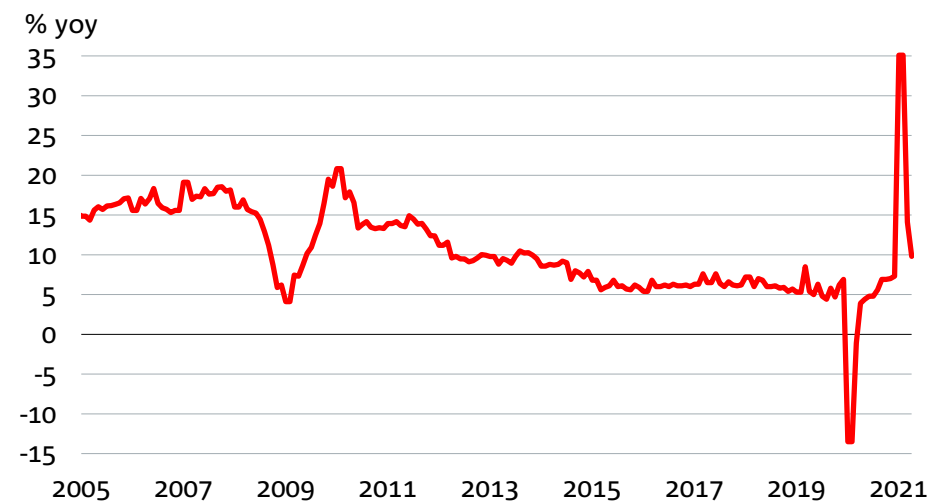
Smaller base effects meant smaller growth rates in April but retail sales are still lagging

- China's industrial production increased by 9.8% yoy in April 2021, down from 14.1% yoy in March. It is worth noting that China's industrial recovery from COVID-19 disruptions was already well underway in April 2020, meaning base effects for this month were smaller than in March. There has been a marked easing in month-on-month growth since September 2020, suggesting that the industrial recovery had largely been completed around this point, with slower organic growth subsequently.
- Growth in China's fixed asset investment slowed further in April – increasing by 10.9% yoy (compared with 19.4% yoy in March). Producer prices have risen sharply in recent months – with these increases flowing through into the cost of investment. As a result, our estimate of real investment slowed significantly in April, down to 3.4% yoy (from 14.3% yoy in March). That said, when compared with the same period in 2019, real investment was around 8.2% larger in April versus 6.2% in March (highlighting the impact of base effects).
- Nominal retail sales growth was well below market expectations and retail prices rose more rapidly in April, meaning that real retail sales increased by 15.8% yoy (down from 33.0% yoy in March). When compared with the level of sales in April 2019, real retail sales rose by 5.4% in April, compared with the 8.9% increase for March 2021 over March 2019 – highlighting the imbalance in China's economy at present (which is overly reliant on the industrial sector).
- China's trade surplus was wider once again in April – up to US\$42.9 billion, compared with the relatively small US\$13.8 billion surplus recorded in March. A month-on-month surge in exports, combined with a slight easing in imports, drove the surplus higher. Trade tensions between the United States and China could re-emerge – China's rolling twelve month trade surplus with the United States widened further in April, to a new record of US\$354.2 billion.
- In the first four months of 2021, China's new credit issuance totalled RMB 12.1 trillion, a decrease of 15.0% yoy. Bank lending increased modestly over this period, while non-bank lending significantly contracted, down by almost 47% yoy. This decline has largely reflected weaker bond issuance, with corporate bonds down by 55% yoy and government bonds by 46% yoy.
- The People's Bank of China (PBoC) has maintained a stable policy rate over the past year, with the one year Loan Prime Rate remaining at 3.85% since April 2020. There is limited external pressure – with other major central banks expected to keep rates at current low levels, despite concerns around the upturn in inflation.

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

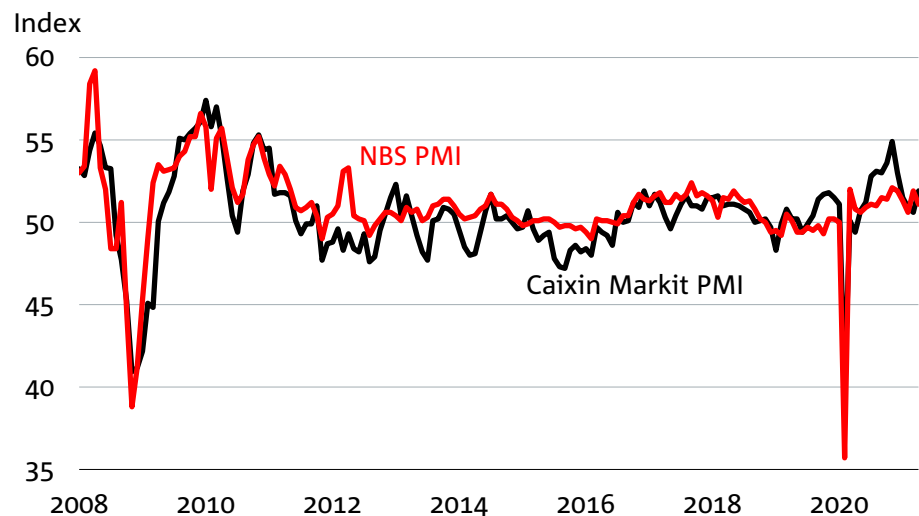
Slower growth as positive base effects start to diminish



Source: CEIC, NAB Economics

MANUFACTURING SURVEYS DIVERGED IN APRIL

Differing trends for manufacturing and new orders



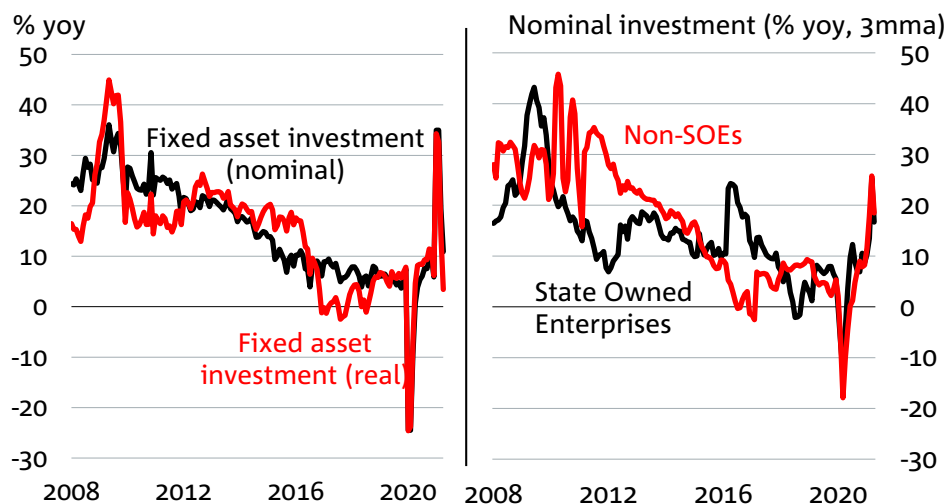
Source: CEIC, NAB Economics

- China's industrial production increased by 9.8% yoy in April 2021, down from 14.1% yoy in March. It is worth noting that China's industrial recovery from COVID-19 disruptions was already well underway in April 2020, meaning base effects for this month were smaller than in March.
- On a month-on-month basis, the slowing trend in growth continued in April – with seasonally adjusted industrial production increasing by 0.52%, from 0.6% previously. There has been a marked easing in monthly growth since September 2020, suggesting that the industrial recovery had largely been completed around this point, with slower organic growth subsequently.
- Among major industrial sub-sectors, there was continued strong growth in both steel and electronics production – increasing by 13.4% yoy and 10.4% yoy respectively. Growth was a little more modest for motor vehicles and cement, which rose by 6.5% yoy and 6.3% yoy respectively.
- Trends in China's major manufacturing surveys diverged somewhat in April. The official NBS PMI eased to 51.1 points (from 51.9 points in March). Weaker trends for production and new orders were the major drivers.
- In contrast, the Caixin Markit PMI survey was stronger in April – up to 51.9 points (from 50.6 points previously). In stark contrast to the weakness in production and new orders in the official survey, these measures strengthened in the Caixin Markit survey in April.
- New export orders remained positive in both surveys – as global trade conditions continue to recover – albeit this measure also weakened in the official survey.

INVESTMENT

FIXED ASSET INVESTMENT

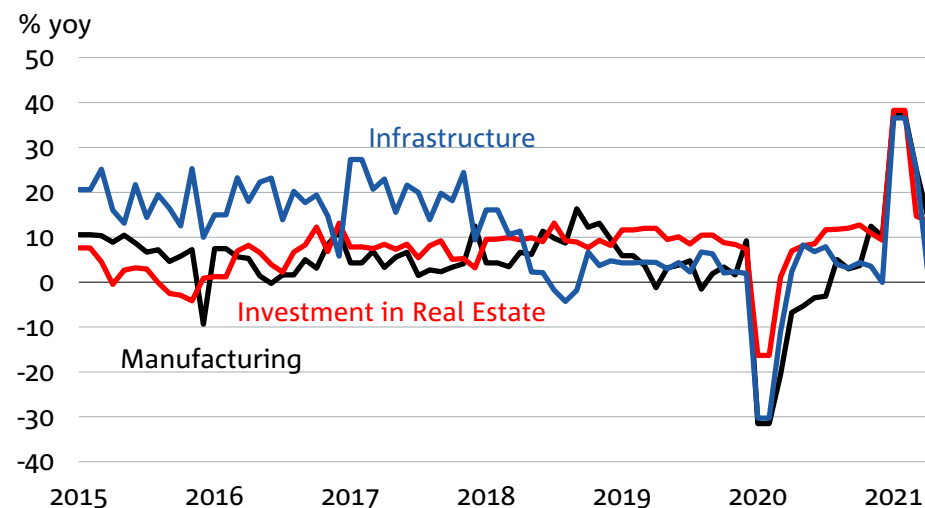
Real growth slowed on base effects and investment costs



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY SECTOR

Infrastructure slowed in April; may struggle for funds in 2021



Source: CEIC, NAB Economics

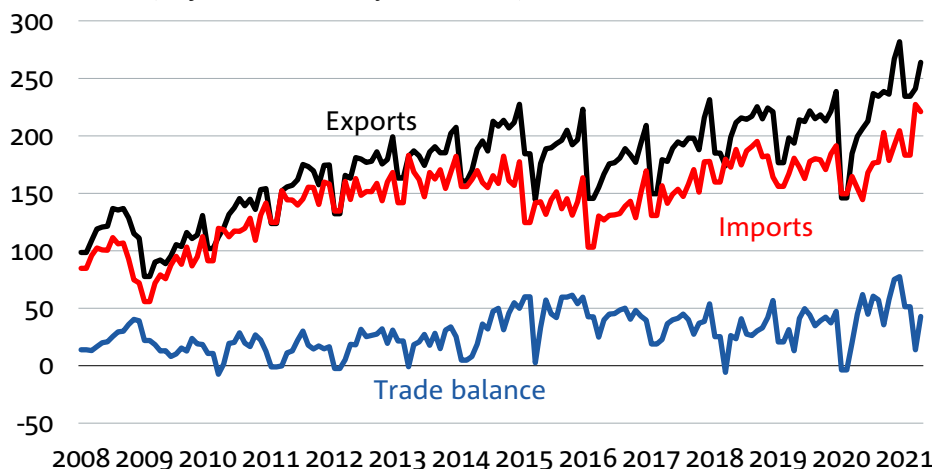
- Growth in China's fixed asset investment slowed further in April – increasing by 10.9% yoy (compared with 19.4% yoy in March). As with other indicators this month, this slowdown was partly related to smaller base effects related to the easing of COVID-19 restrictions that began in March 2020.
- Producer prices have risen sharply in recent months – with these increases flowing through into the cost of investment. As a result, our estimate of real investment slowed significantly in April, down to 3.4% yoy (from 14.3% yoy in March). That said, when compared with the same period in 2019, real investment was around 8.2% larger in April versus 6.2% in March.
- The slower nominal growth in fixed asset investment was driven more by state-owned enterprises (SOEs) in April than the private sector. SOE investment rose by 8.6% yoy (compared with 20.4% yoy in March), while private firms recorded growth of 12.4% yoy in April (down from 18.8% yoy previously). In a large part this may reflect differing base effects between the two sectors – given that SOEs were quicker to recover in 2020 than private firms.
- Growth trends were mixed across major industries. Nominal investment in real estate remained relatively robust – at around 13.7% yoy (from 14.7% yoy in March). In contrast, growth in manufacturing investment slowed to around 14.7% yoy (from 25.1% yoy previously). Infrastructure investment growth slowed markedly – down to 2.6% yoy – which would almost certainly be negative in real terms. Cuts to local government special bonds and pandemic bonds, allied to general concerns around local government finances, mean that infrastructure growth may be limited at best in 2021.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

Surplus climbs on strong month-on-month increase in exports

US\$ billion (adjusted for new year effects)



Sources: CEIC, NAB Economics

CHINA'S TRADE SURPLUS WITH THE US

Rolling surplus breached US\$350m for the first time in April

US\$ billion (12 month rolling sum)



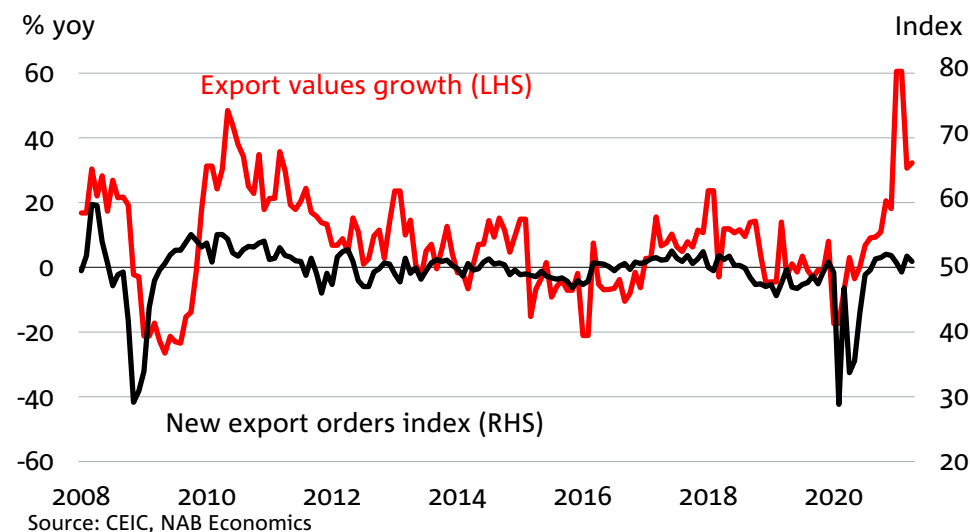
Sources: CEIC, NAB Economics

- China's trade surplus was wider once again in April – up to US\$42.9 billion, compared with the relatively small US\$13.8 billion surplus recorded in March. A month-on-month surge in exports, combined with a slight easing in imports, drove the surplus higher.
- Trade tensions between the United States and China could re-emerge. China still lags behind the agreed level of purchases for 2021 (on a pro rata basis) under the Phase One trade deal signed in January 2020. China's rolling twelve month trade surplus with the United States widened further in April, to a new record of US\$354.2 billion.
- China's imports eased to US\$221.1 billion in April, the second largest monthly total after the record US\$227.3 billion in March. In year-on-year terms, imports rose by 43.1%. The strength of this increase reflects a range of factors – including base effects (due to weakness in April 2020 due to COVID-19), increases in commodity prices and higher volumes.
- Commodity prices have risen strongly in recent times – reflecting both the recovery in global demand (led by China) but also constraints in supply (in part related to COVID-19). In US dollar terms, the RBA Index of Commodity Prices rose by 41.1% yoy.
- Our estimate of import volumes uses commodity prices as a proxy for import prices. This suggests that import volumes rose by 28.1% yoy in April, compared with 26.2% yoy in March.
- That said, year-on-year growth in key commodities was considerably more modest in April. Imports of refined copper and iron ore rose a little – up by 5.1% yoy and 3.0% yoy respectively. In contrast, crude oil fell marginally – down by 0.2% yoy – and coal imports plunged by 29.8% yoy.

INTERNATIONAL TRADE – EXPORTS

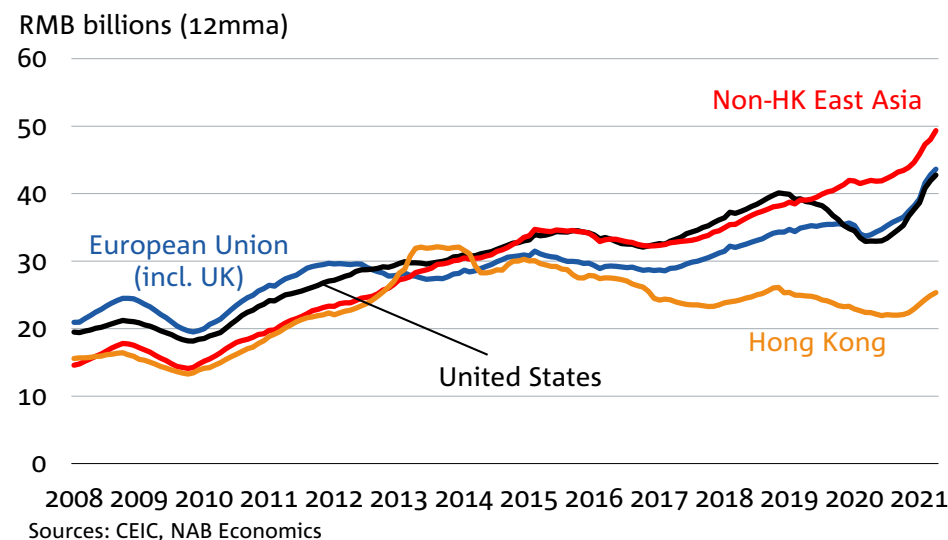
EXPORT VALUE AND NEW EXPORT ORDERS

Strong export growth as the global economy recovers



EXPORTS TO MAJOR TRADING PARTNERS

Exports to East Asia have powered ahead

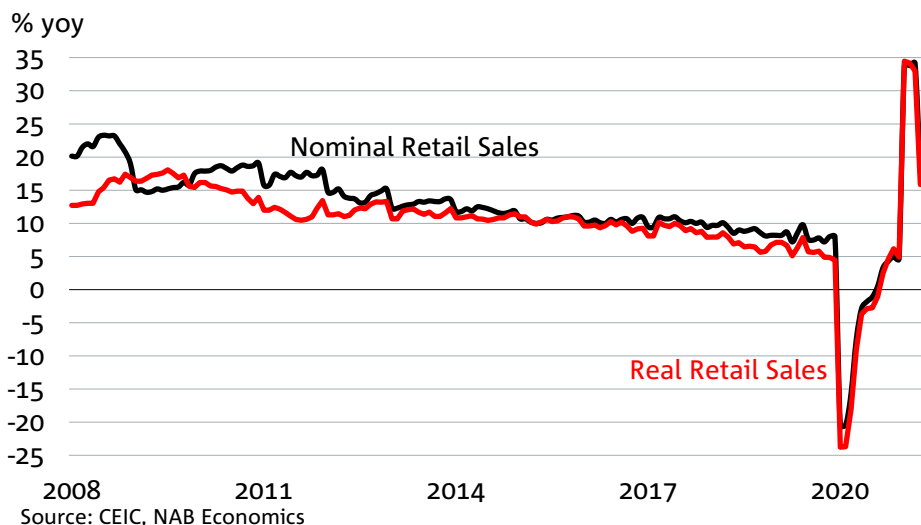


- China's exports rose strongly in April to US\$263.9 billion, from US\$241.1 billion in March. In year-on-year terms, exports rose 32.3% – reflecting both the impact of base effects (given widespread shutdowns due to the COVID-19 pandemic in major trading partners in April 2020) and the ongoing recovery in the global economy.
- New export orders in the NBS PMI survey were softer in April at 50.4 points, from 51.2 points in March.
- There were differing trends in the export growth to major trading partners in April. Exports to both the United States and the European Union & United Kingdom grew less rapidly in April – with exports to the US increasing by 31.2% yoy (down from 53.3% in March), while exports to the EU & UK rose by 28.1% yoy (from 49.4% previously).
- In contrast, exports to East Asia rose by 33.6% yoy (up from 23.4% yoy in March). Within this group of countries, exports to Hong Kong rose by 25.7% yoy in April, while exports to non-Hong Kong grew by 37.7% yoy – led by increased exports to Vietnam, Malaysia and South Korea.

RETAIL SALES AND INFLATION

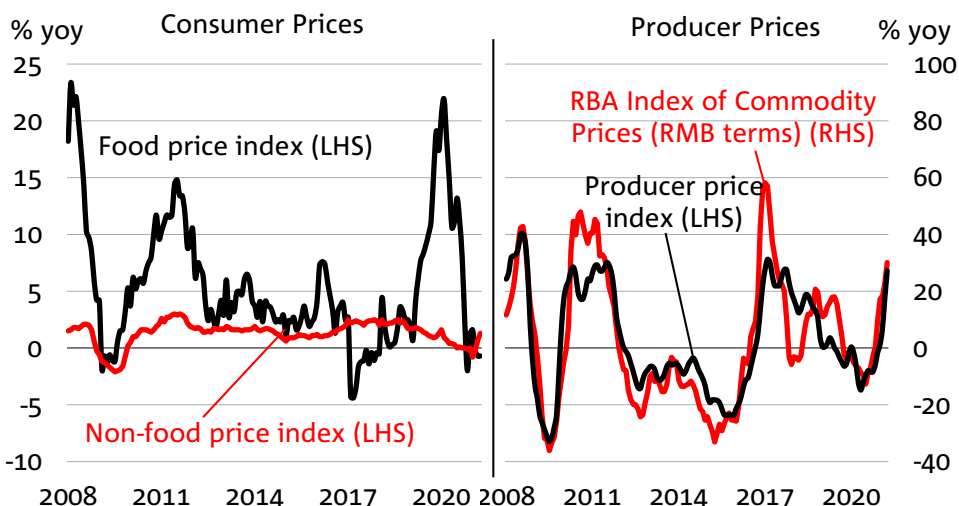
RETAIL SALES FELL SHORT OF EXPECTATIONS

China's economy still too reliant on the industrial sector



CONSUMER AND PRODUCER PRICES

Rising commodity prices driving producer price inflation

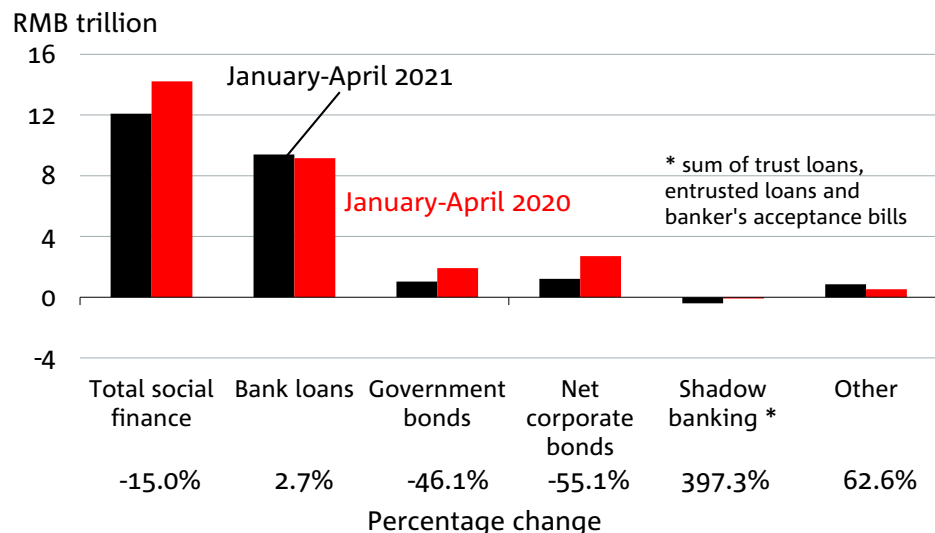


- Nominal retail sales growth decelerated in April – increasing by 17.7% yoy (compared with 34.2% yoy in March). As was the case with the industrial sector, the start of China's economic recovery in March 2020 meant that base effects were smaller this month than in March. However, while industrial production growth was in line with market expectations, retail sales growth fell well below (the Reuters poll anticipated growth at 24.9% yoy).
- Retail prices rose more rapidly in April, meaning that real retail sales increased by 15.8% yoy (down from 33.0% yoy in March). When compared with the level of sales in April 2019, real retail sales rose by 5.4% in April, compared with the 8.9% increase for March 2021 over March 2019 – highlighting the imbalance in China's economy at present (which is overly reliant on the industrial sector).
- China's headline consumer prices rose in April, with the consumer price index up by 0.9% yoy (from 0.4% previously). There was a stark difference between the fall in food prices and a much stronger increase in non-food prices.
- Food prices fell by 0.7% yoy in April, the same decline that was recorded in March. Meat prices remain a key driver, with pork prices falling by 21.4% yoy – reflecting the recovery from African Swine Fever since late 2020, despite fears of a second wave of the virus. Reports suggest that the virus was spreading in the North East of the country in Q1, with authorities restricting live animal shipments to reduce risk.
- Non-food prices rose by 1.3% yoy (up from 0.7% yoy in March). Rising fuel prices were a major contributor to this trend, with vehicle fuel prices up by 19.4% yoy in April, compared with 11.5% yoy in March.
- Producer prices have continued to accelerate – increasing by 6.8% yoy in April, following on from the 4.4% yoy increase in March. Rising commodity prices were a major contributor to this trend, with the RBA Index of Commodity Prices, when converted into RMB terms, increasing by over 30% yoy in April.

CREDIT CONDITIONS

NEW CREDIT ISSUANCE

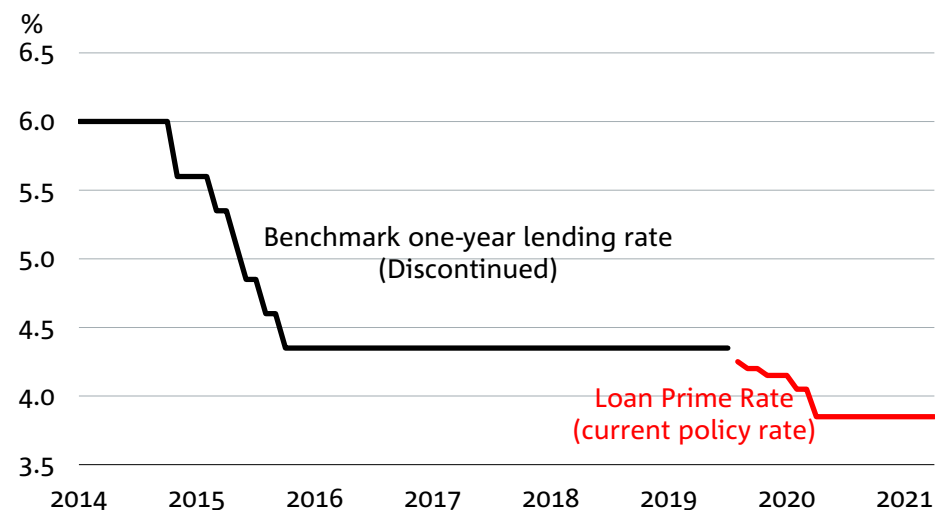
New credit contracts in 2021 as bond issuance falls



Sources: CEIC, NAB Economics

MONETARY POLICY

Interest rates remain on hold; PBoC want to slow credit growth



Source: CEIC, NAB Economics

- New credit issuance was comparatively weak for the second straight month, declining by just over 40% yoy. However, it is worth noting that issuance in April 2020 was particularly strong, led by corporate bond issuance and bank lending, with both of these sources sharply lower in April 2021.
- In the first four months of 2021, China's new credit issuance totalled RMB 12.1 trillion, a decrease of 15.0% yoy. Bank lending accounted for the largest share of new credit issuance – increasing by 2.7% yoy over this period to RMB 9.4 trillion.
- Non-bank lending significantly contracted in the first four months of 2021 – down by almost 47% yoy to RMB 2.7 trillion. This decline has largely reflected weaker bond issuance, with corporate bonds down by 55% yoy and government bonds by 46% yoy. Trust loans (a component of the shadow banking sector) also contracted.
- The People's Bank of China (PBoC) has maintained a stable policy rate over the past year, with the one year Loan Prime Rate remaining at 3.85% since April 2020. There is limited external pressure – with other major central banks expected to keep rates at current low levels, despite concerns around the upturn in inflation.
- We expect the PBoC to keep rates at their current levels for now, while slowing credit creation, having signalled its intention to reduce stimulus to more targeted measures to sectors negatively impacted by the pandemic. China's money supply (as measured by M2) rose by 8.1% yoy, the slowest rate of increase since July 2019.

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